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FISCAL YEAR 1991 USTR AND ITC BUDGET AUTHORIZATIONS

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

FEBRUARY 23, 1990

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FISCAL YEAR 1991 USTR AND ITC BUDGET AUTHORIZATIONS

FRIDAY, FEBRUARY 23, 1990

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:00 a.m. in room SD-215, Dirksen Senate Office Building, Hon. Max Baucus (chairman of the subcommittee) presiding.

Also present: Senator Packwood.

[The press release announcing the hearing follows:]

[Press Release No. H-7, Feb. 2, 1990]

FINANCE SUBCOMMITTEE ON TRADE TO HOLD HEARING ON TRADE AGENCY AUTHORIZATIONS

WASHINGTON, DC—Senator Max Baucus (D., Montana), Chairman, announced Friday the Subcommittee on International Trade will hold a hearing on budget authorizations for the United States Trade Representative and the International Trade Commission.

The hearing is scheduled for *Friday, February 23, 1990 at 10 a.m.* in room SD-215 of the Dirksen Senate Office Building.

Senator Baucus said, "The Office of the United States Trade Representative and the International Trade Commission are the front line in our efforts to open foreign markets and strengthen American trade policy. In the 1988 Trade Act, we greatly increased demands on these agencies. We must see to it that they have the resources necessary to fulfill their missions."

OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA, CHAIRMAN OF THE SUBCOMMITTEE

Senator BAUCUS. The hearing will come to order.

The Office of the U.S. Trade Representative and the U.S. International Trade Commission are the front line soldiers of U.S. trade policy. The USTR, in particular, is responsible for establishing and implementing U.S. trade policy. Currently, the USTR is engaged in implementing the 1988 Trade Act, negotiating trade agreements with the Soviet Union and other Eastern European countries, negotiating a new set of GATT agreements and overseeing implementation of the United States-Canadian Free Trade Agreement.

The ITC serves the dual role of administrating U.S. countervailing duty and anti-dumping law with the Commerce Department and serving as the Government's trade policy think tank. Both agencies are highly regarded and generally have the trust of the Congress.

I have not always agreed with the decisions of the USTR and the ITC, but I have always found both to be extremely able and professional organizations.

The ITC has the unique status in the budgeting process. It submits its budget request directly to the Congress without the approval of the administration. In short, it is free from the scrutiny of OMB. This has allowed the ITC's budget to keep pace with its duties. Unfortunately, the same cannot be said for the USTR.

Last year, the President requested $17.8 million for the U.S. Trade Representative. The Finance Committee determined that was not enough to carry out the many functions assigned to it and authorized $21.1 million. Unfortunately, even after the intervention of the chairman of the committee, Senator Packwood, Senator Danforth, and myself, we were only able to convince our colleagues on the Appropriations Committees to appropriate $18 million.

After the Gramm-Rudman cuts, the USTR ended up receiving only $17.8 million, slightly less than it originally requested. In my view, underfunding the USTR is a disgrace. I am strongly in favor of controlling Government spending, but both the Congress and the administration must recognize the tremendous workload that the USTR faces.

In the Congress, we have talked a great deal about establishing a comprehensive and aggressive trade policy. We have made considerable progress toward establishing such a policy. But policy means little if we don't have the personnel to implement it.

Mr. Bolten, our first witness, is a member of the administration, and I am sure he will vigorously defend USTR's 1991 budget request of $18.9 million as reasonable. But I notice that even with this 5-percent increase, USTR will be forced to eliminate four positions in 1991.

If we are serious about a strong U.S. trade policy, we cannot begin trimming back the size of the agency designated to carry out that policy. And I hope the Finance Committee will once again approve a substantial increase in USTR's budget over and above the President's request. This year perhaps we can convince OMB and the Appropriations Committee to support that.

When the Bush administration took office, I noticed several newspaper articles indicating many prominent and former government officials were vying for the job of USTR. It was widely reported that it was one of the most sought after posts in the Bush Cabinet. If some of those applicants, however, had seen the budget of the USTR I doubt that they would have been quite so enthusiastic.

The committee is considering 2-year authorizations for both the USTR and the ITC in this budget cycle, and in order to help us settle on appropriate authorizations level it would be helpful if both witnesses could address the needs that they perceive for their agencies in 1992 as well as 1991.

Today, we are pleased to have with us both Joshua Bolten, the General Counsel of the USTR, and Anne Brunsdale, the Chair of the ITC. And, Anne, why don't you come up too with Joshua, both at the same time, because we have one country, even though we have two agencies.

Alright. We are honored to have you both here, Joshua, why don't you proceed.

STATEMENT OF JOSHUA B. BOLTEN, GENERAL COUNSEL, OFFICE OF THE U.S. TRADE REPRESENTATIVE, ACCOMPANIED BY DAVID BURNS, ASSISTANT USTR FOR ADMINISTRATION

Mr. BOLTEN. Thank you, Mr. Chairman, for those kind words about the agency. It is a pleasure to have the opportunity to present the fiscal 1991 budget authorization request for USTR. The USTR greatly appreciates the support this committee had demonstrated during the past year for the agency and its mission. We look forward to a continued close working relationship, especially as we move toward the conclusion of Uruguay Round negotiations at the end of this year.

USTR's authorization request for fiscal year 1991 is for approximately $18.9 million. Of that, $1.5 million is earmarked for cost of administering the dispute settlement procedures under the Chapter 19 section of the United States-Canada Free Trade Agreement. When that $1.5 million is subtracted from our request of $18.9 million, we end up with an operating expense budget for fiscal year 1991 of roughly $17.4 million. This compares with an effective operating budget in fiscal year 1990 of about $16.8 million. That's a small increase in dollar terms. In real terms, Mr. Chairman, the number actually represents a very slight decrease in the real resources available to USTR because of mandated Government-wide salary increases and inflation expenses.

Our bill, Mr. Chairman, also seeks a $9,000 increase in the representation fund spending limit, up to $98,000, and a continuation of the no-year spending authority up to $1 million. No new positions are requested. We expect to remain at or around our previously authorized level of 156.

USTR's budget request is predicated on the concept that, while the Uruguay Round will be over in December of 1990, first quarter fiscal year 1991 costs will be far higher than usual to handle the extensive travel and meetings necessary to conclude the Uruguay Round,

Second, we expect the pace of activity associated with the Round to continue at a high level through most of the fiscal year as we conclude implementing arrangements and prepare the agreement for submission back to you, this committee, and the rest of the Congress.

Issues outside the Uruguay Round that you mentioned, Mr. Chairman, remain extremely important to USTR. We expect our bilateral issues to continue to be of very substantial importance. Japan remains at the top of our bilateral agenda. EC 1992 also requires a great deal of attention from the USTR as do many other bilateral issues, including a new agenda item for the Trade Representative's Office, which is the negotiation of trade arrangements with a number of Eastern European countries.

A word, Mr. Chairman, on the $1.5 million request that we have requested for the United States-Canada Free Trade Agreement dispute settlement procedures.

This budget estimate was developed by the Commerce Department based on expected costs of administering Chapter 19 panels in fiscal year 1991. USTR will transfer the funds appropriated to it

for Chapter 19 support directly to the Commerce Department which manages the actual expenditures.

Mr. Chairman and Senator Packwood, our philosophy continues to be centered on keeping USTR as small and agile as possible, consistent with fulfilling our important mission. Budgets are tight, as they should be, throughout the administration, but we believe the funds requested are ample to get our job done. If our request is approved, USTR will have resources to conclude the Uruguay Round of negotiations and continue with our important bilateral agenda.

As we pursue that agenda and carrying out all the many tasks that you listed, Mr. Chairman, in your opening remarks, we continue to rely very heavily on support from the rest of the trade community. I should emphasize that the support we have received at USTR over the past year has been outstanding. Secretaries Baker and Mosbacher among others, and in particular I note Chairman Brunsdale and her colleagues at the ITC, have been very generous and cooperative in helping us fulfill our joint mission.

We have active times ahead, Mr. Chairman, rich with opportunity. We believe we are well positioned to take advantage of the opportunity.

Let me close, Mr. Chairman, on behalf of Ambassador Hills, by thanking you and all the members of the committee for the extraordinary support we have received in the past year.

Senator BAUCUS. Thank you very much, Joshua.

Ms. Brunsdale, why don't you go next,

[The prepared statement of Mr. Bolten appears in the appendix.]

STATEMENT OF ANNE BRUNSDALE, CHAIRMAN, INTERNATIONAL TRADE COMMISSION, ACCOMPANIED BY PHIL KATZ, DIRECTOR OF FINANCE AND BUDGET

Ms. BRUNSDALE. Thank you very much, Mr. Chairman, and Senator Packwood.

I am very aware of the generous support and interest that the ITC has received from you and your colleagues on this committee over the years. And I want to thank you for it and tell you that I am very pleased to be here today.

My task is to present to you our budget request for fiscal year 1991. But, first, let me introduce my colleague, Phil Katz, who is making his first appearance here as the Commission's Director of Finance and Budget. Also in the room today are Vice Chairman Ronald Cass and Commissioners Alfred Eckes and David Rohr.

The budget request that I am presenting to you has the approval of the majority of the Commission. It totals $42,430,000 for fiscal year 1991 and provides for 502 full-time permanent positions.

At the request of this subcommittee, I am also submitting a fiscal year 1992 authorization request. This request totals $46,673,000, and it also has the Commission majority's approval.

In developing our 1991 budget request, the Commission has held its programs and staffing to current authorized levels. That is to say the increases do not reflect growth in operations. The $42,432,000 requested for fiscal year 1991 is about 10 percent above our authorized fiscal year 1990 appropriation after the Gramm-Rudman-Hollings reduction. The increase is necessary to fund

normal operating expenses and nondiscretionary salary costs, including 50-percent funding of the proposed January 1991 pay raises as recommended by the Office of Management and Budget.

The Commission has two primary responsibilities, as Chairman Baucus indicated—first, our quasi-judicial injury and causation determinations primarily under Title VII of the Tariff Act of 1930 and, second, our think-tank functions.

Looking at the past 5 years, the Commission's total investigative workload, which includes both quasi-judicial investigations and Section 332 studies, has declined. It declined from 239 new investigations in fiscal year 1985 to a low of 92 in fiscal year 1988, and then rose to 119 in fiscal year 1989. As for the next 2 years, staff initially projected 126 new investigations for fiscal year 1990 and 125 for fiscal year 1991. Recently, in light of only 20 actual filings through the first 4 months of 1990, staff lowered these projections to 105 cases in fiscal year 1990 and 119 in fiscal year 1991. The Title VII estimate for 1990 was dropped from 75 new investigations to 60.

I should note that while our caseload is indeed down, there is not a 1-to-1 correlation between caseload and resources needed to fulfill our commitments.

This is true for a number of reasons. First, individual cases and Section 332 studies tend to be larger in scope and to require greater analytical sophistication than they previously have. Moreover, the new programs that we have instituted on data verification and statistical support will increase somewhat the number of work-years devoted to each investigation. Furthermore, the many new changes in the trade environment require us to look into new issues abroad and to develop greater expertise in foreign markets.

In addition to our regular investigative workload, the Commission expects to continue to be heavily involved this fiscal year and next in providing support to the USTR in connection with the Uruguay Round negotiations, as well as trade agreement negotiations with the Soviet Union and Eastern European countries, implementation of the United States-Canada Free Trade Pact and other trade initiatives. Moreover, should the Uruguay Round culminate, as we hope, in legislation in 1991, additional work will come to us from that quarter.

Finally, we expect to continue to provide Congress with technical assistance on a wide range of trade issues.

Let me note that during the last year, new legislation last required the Commission to create two new offices: the Office of Inspector General and a separate Trade Remedy Assistance Office with expanded responsibilities. Both offices are now staffed and fully operational.

It doesn't need to be said to this committee, trade and trade issues will remain in the forefront of the public debate for some time. As a result, the Commission, of which I am proud to be a member, will have an important role to fulfill.

It is important that Congress have confidence in our ability to provide sound analyses and data, to respond to new developments and to investigate responsibly and solidly the claims under the import relief laws.

Our budget request for fiscal year 1991 will provide the resources needed to meet these demands.

I thank you very much for your attention.

[The prepared statement of Ms. Brunsdale appears in the appendix.]

Senator BAUCUS. Thank you very much, both of you.

Mr. Bolten, I wonder if you could give me little more of a flavor of how strained and pressed the USTR is with its increased duties and the degree to which the agency is able to perform them. I understand, for example, that the USTR has only one person exclusively dedicated to Japan and is borrowing another person from another agency. I also hear that some of your people have to go back to their home, or their home bases, wherever they might be, to use those computers because you don't have adequate computer capability within the USTR.

I mention all this not only in context of the increased duties—with the Uruguay Round and the Trade Act and new trade agreements with Eastern Europe, and EC 92, et cetera—but also I am reminded that at a breakfast I had a couple of years ago with Mr. Morita of Sony—it was a month or two before the Presidential election—I said to him, Mr. Morita, assuming the next President of the United States, whether it's Michael Dukakis or George Bush, were to call you the day after the election to give you carte blanche in developing America's trade and economic policy, what would your advice be? And without batting an eye, he immediately made two points. Number one, he essentially said, "Abolish the SEC," meaning that there is too much fixation on the quarterly reporting requirements. But he also said, "Look, you've got a Department of Agriculture. You have a Department of Housing. In this new world, you need a Department of Trade. You have got to get with it in the international arena."

So could you give us some concrete, precise examples of how strained you are in the USTR's office?

Mr. BOLTEN. Mr. Chairman, I would be less than candid if I said we are not stretched. The agency is stretched. Senator Packwood knows that I was a much younger man when I left here a year ago than I am today. And I think that is true for many of the people in the agency. But I think it is also true for many other agencies around government. It is true for your own staff. We have an enormous agenda to fulfill. We think we are meeting it in good shape. We recognize that these are times of austerity for budgets, and we sometimes need to make do with less than we would like; but we feel we are making do in good shape.

You mentioned a couple of specific items. Our computer system is somewhat outdated at USTR, and we hope sometime in the near future to be able to upgrade it. For now, we are getting by adequately with our computer system. We have been able to borrow effectively occasionally on the resources of other agencies to meet out computing needs, notably at the ITC.

Our Japan shop has in fact more than just one person working full-time on Japan. The total Japan and China shop now has five people. We have beefed up our resources there. Effective next Tuesday, we will have two new Deputy Assistant U.S. Trade Representatives for Japan. Both are Japanese speakers. And we are also receiving resources from other agencies, including a new detail from State who is a Japanese speaker. So we have recognized your con-

cern there. We do want to give a very high priority to our trade relations with Japan. I am sure Mr. Morita will be glad to hear that we are beefing up, especially for our trade agenda with the Japanese.

Overall, Mr. Chairman, we need to recognize that we are a coordinating agency, we cannot take in-house all of the individual responsibilities that need to be accomplished on the trade agenda, because then I think we would lose the unique and important quality of USTR as the coordinator. As the negotiator, we would, I think, end up bureaucratizing ourselves, slowing us down.

Senator BAUCUS. How many people do you have in Brussels?

Mr. BOLTEN. USTR has one person in Brussels, who is actually technically on State Department rolls. The State Department, for the most part, staffs the United States-EC mission and devotes, I know, a large number of its resources there to following commercial matters with the EC.

Senator BAUCUS. I will express it differently. How large is the EC mission?

Mr. BOLTEN. I don't have the answer to that.

Mr. Chairman, I neglected to introduce David Burns, our Assistant U.S. Trade Representative for Administration. He may have some response on that.

Senator BAUCUS. Good.

I just wondered because—I think Senator Packwood was with me—we were over in Europe last March.

Senator PACKWOOD. One person.

Senator BAUCUS. Yes, that's right. One person in the USTR. And during that same trip I asked a member of the British Parliament about the degree to which Great Britain staffs its mission in Brussels, and I was astounded to learn that the Brussels mission is Britain's largest foreign mission in the world if you subtract military personnel. Obviously it is clear that Brussels, in 1992, is much more important to Britain, than it is to the United States because Britain is part of the community. But still it shows the degree to which Britain is devoting its time and resources to trade matters.

Ms. Brunsdale, you are in a bit different situation than the USTR. For example, the Commission's caseload has declined from a high of 239 cases in fiscal year 1985 down to 92 cases in fiscal year 1988. And I understand you are forecasting 126 cases for fiscal year 1990. Even though many of those were steel cases, one must ask what the reason is for a 10-percent increase in the Commission's budget?

Ms. BRUNSDALE. I should note that, at this point, our fiscal year 1990 estimate is 105, not 126, and our estimate for fiscal year 1991 is 125.

As I said in my statement, there is not a 1-to-1 correlation, Senator Baucus, between caseload and our needs. Our think-tank function extends well beyond the Section 332 studies that we do at the request of this committee, the House Ways and Means Committee, and the USTR. It includes many activities not reflected in our caseload count. It includes staff studies and handling all kinds of small technical requests from Congress and the USTR. It also includes maintaining a skills inventory in the various aspects of trade, various commodities, and various countries so that we can respond

with some degree of dispatch to changing developments and to the changing needs of U.S. policymakers.

Senator BAUCUS. I would like to ask another question about the authorization. There are some talks that perhaps USTR and the Customs' authorization should be 2-year authorizations. Your comment, please. Are you for it or against it? And why?

Ms. BRUNSDALE. Well I am conflicted, as they say. On the one hand, it surely is somewhat more efficient from the point of view of Congress and the administration to look at budget requests over a 2-year period. On the other hand, if I may speak just from the point of view of the ITC, it is particularly hard for us to come up with a responsible estimate that is 2 years out.

Our caseload responds to developments in the economy. And in the trade world. A recession, for example, would have a buoyant effect on our caseload as I think everybody understands. Who is in a position to predict with certainty, with even a relative degree of confidence, that there will be or will not be a recession of material size in 1991 or 1992? That is our problem.

If we are doing a 2-year budget estimate, our first year will end up being closer to the mark than our second year.

Senator BAUCUS. So are you for or against it?

Ms. BRUNSDALE. So how do I come down?

Senator BAUCUS. Yes.

Ms. BRUNSDALE. I think I like the 1-year approach, personally. I am not speaking for the Commission on that point.

Senator BAUCUS. Quickly, Joshua, your reaction.

Mr. BOLTEN. We are for it, Mr. Chairman.

Senator BAUCUS. For the 2-year?

Mr. BOLTEN. Yes, sir.

Senator BAUCUS. Why?

Mr. BOLTEN. Well, first, except in the narrow area of United States-Canada Free Trade Agreement dispute settlements, we don't face the uncertainty of how many cases are actually going to walk in the door. We have a pretty good sense of what our workload will be a year from now and, therefore, can project out reasonably well what we think our resources will need to be. Lacking that uncertainty, we prefer the efficiency and the certainty for both our planning purposes and for purposes of getting the appropriations process to move effectively here in the Congress. We would therefore prefer to have the 2-year authorization in place.

Last year, we faced a situation, as you may know, Mr. Chairman, of having not had our authorization passed at the time the appropriations bills went through over on the House side; therefore, the House Appropriations Committees acted without benefit of input on the authorizing side.

Senator BAUCUS. You do think you will do better with the 2-year authorization?

Mr. BOLTEN. Yes, sir,

Senator BAUCUS. So you don't like coming up seeing us every year? [Laughter.]

Mr. BOLTEN. Mr. Chairman, we are delighted to come up and see you any time, any place, and we probably do it even more frequently than you want. I don't think we need the budget as an excuse to appear before you.

Senator BAUCUS. All right. Thank you.

Senator Packwood.

Senator PACKWOOD. Joshua, let me follow up on what the Chairman said.

I don't know how you get by on what you have got. You have got the implementation of the Canadian-American Free Trade Agreement. You have got the 1988 Trade Bill and the existing 301 cases, and new 301 cases you are going to be coming up with, I assume. You have got the entire Uruguay Round and you have got to keep track of EC 92.

You could not conceivably get by with any less than you are getting, could you?

Mr. BOLTEN. Senator Packwood, I wouldn't want to try to get by with less than what we are requesting.

Senator PACKWOOD. And it would be quite a blow if in next year's budget OMB were to try to cut you $2 or $2½ million.

Mr. BOLTEN. Senator, we are in conversation with OMB right now about what an appropriate level of funding will be for fiscal year 1992. The Uruguay Round will be completed by then. We do have a number of other important agenda items that will need to be pursued, and we will have followups from the Uruguay Round, but as yet have not reached a conclusion with OMB in our discussions on what our numbers ought to be for fiscal year 1992.

Senator PACKWOOD. Well I won't reveal them here. I think I know what OMB thinks your figures ought to be. And if OMB insists upon those figures, I, for one, will do everything I can to raise them here to this year's level and beyond. You don't need to comment on that.

Mr. BOLTEN. Thank you, Senator. I will give you some phone numbers, however. [Laughter.]

Senator PACKWOOD. I have no other questions, Mr. Chairman, Thank you.

Senator BAUCUS. As I understand it, Joshua, the President's request is $18.9 million, but your request to OMB was $23.25. Is that correct?

Mr. BOLTEN. That is correct, sir.

Senator BAUCUS. You believe obviously that to adequately perform your responsibilities, $23.25 million is the requisite amount.

Mr. BOLTEN. Mr. Chairman, we think we can adequately perform our responsibilities with the amount that has been requested by the administration, but we also felt at the time we made that budget submission of $23.25 million that we had good reason for it.

Senator BAUCUS. What will you cut back from $23.25 million to $18.9 million?

Mr. BOLTEN. I have a listing here of the items that were not funded as between our request and what OMB——

Senator BAUCUS. Would you get the high points for us now, please?

Mr. BOLTEN. Yes, sir.

Our original request to OMB was for $2 million for the United States-Canada Free Trade Agreement dispute settlement process. That was cut back to $1.5 million.

We originally requested $1.2 million to upgrade our computers, which I mentioned at the outset of the questioning. That request was denied, so the money is not there to upgrade the computers.

We requested $700,000 for additional Uruguay Round travel and computer support. That request was denied.

We requested $678,000 to fund the government-wide mandated pay increases. Of that, we received $440,000, meaning that USTR is now in a position of having to eat about $238,000 in the mandated pay increase out of our existing budget.

We also requested eight additional staff positions at a cost of about $800,000, which request was also denied. And then there were some miscellaneous items amounting to about $800,000.

Senator BAUCUS. So the President's request is in effect in real terms cut from the amounts appropriated last year.

Mr. BOLTEN. In real terms, yes, it is, Senator.

Senator BAUCUS. Real is real.

I have no further questions. Senator Packwood.

Senator PACKWOOD. Thank you, Mr. Chairman. I have one of Ms. Brunsdale.

In your opinion, what accounts for the decrease in the total investigative caseload of the ITC over the last several years?

Ms. BRUNSDALE. Senator Packwood, I think a number of factors have accounted for that decrease. One has been the long, steady growth of the U.S. economy, starting in about 1982. To get affirmative in our cases, an industry has to be able to show that it is injured. With growth in the economy, more profit-and-loss statements out there look good than weak. So, presumably, there are industries that feel they could not sustain an injury finding.

Second, the change in the exchange rate clearly has had a difference. It has made the imports more expensive and exports more competitive.

Third, over the past 8 to 10 years there has been a considerable amount of new protection put on the U.S. economy, all of which tends to reduce the demand for additional protection.

There have been the VRA's in steel and autos, the semiconductor agreement, the agreement involving machine tools, an expansion of the multi-fiber agreement, and some others. Also in the eighties, the overall Title VII caseload at the Commission was larger. And while I cannot remember the count, I seem to recall that of the Title VII cases in the last 6 to 8 years, some 230 of them, or maybe it was 300, have gone affirmative. That adds more protection to the economy.

So it seems to me what has happened as a result of all these factors is that the demand for protection has been reduced.

Senator PACKWOOD. That is a good answer, Mr. Chairman.

Senator BAUCUS. Well I want to thank you both very much. Both agencies I think are doing a terrific job. And, frankly, I think that as we proceed through the 1990's into the next century, the services of your agencies will be even more needed and even more appreciated. Thank you very much.

Ms. BRUNSDALE. Thank you, Mr. Chairman.

Mr. BOLTEN. Thank you, sir.

Senator BAUCUS. The hearing is adjourned.

[Whereupon, at 10:34 a.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED

PREPARED STATEMENT OF JOSHUA BOLTON

Mr. Chairman, it is a pleasure to appear before you this morning to present the Fiscal Year 1991 budget authorization request for the Office of the United States Trade Representative. USTR greatly appreciates the support this committee has demonstrated during the past year for USTR and its mission. We look forward to a continued close working relationship, especially as we move toward the conclusion of Uruguay Round negotiations at the end of the year.

The request seeks a two-year authorization. For each of fiscal years 1991 and 1992, no-year spending authority of up to $2,500,000 would be established. Of this amount, $1,000,000 would remain as a method for insulating USTR from swings in currency exchange rates which affect the budget of our Geneva, Switzerland office; $1,500,000 would remain for the United States share of the expenses of the binational panels under the U.S.-Canada Free Trade Agreement (CFTA).

The FY 1991 request is for $18,936,000. In percentage terms, the FY 1991 request represents an increase of seven percent over the FY 1990 base in dollars and no increase in staffing. Much of the increase, however, occurs in the cost of supporting the U.S.-Canada Free Trade Agreement. We believe these amounts will be sufficient to support the work we have planned for the next fiscal year. While resources will be tight, USTR will get the maximum out of every dollar spent in pursuing its challenging agenda.

UPDATE ON TRADE ACTIONS & ISSUES

An essential target of our trade policy strategy is to get the government out of the business arena. That goal has influenced all of our trade actions this past year, including:

- The President's Steel Trade Liberalization Program, under which the world's leading steel producers agreed to curb government subsidies and open markets;
- Our recent proposed package of accelerated tariff reductions on $6 million in goods under the U.S.-Canada Free Trade Agreement;
- Our efforts to ensure that as Europe reduces barriers internally to create a single market by 1992, it will not raise them externally;
- Our New Understanding with Mexico, which is designed to expand trade in key sectors;
- Our various negotiations with Japan seeking to eliminate restrictions to trade; and
- Our initiation of trade talks with Eastern European nations and the Soviet Union as they move away from Stalinist systems toward market-driven regimes.

In each case, the Administration's goal was to support the move toward free markets.

THE URUGUAY ROUND

Each of the above noted market-opening efforts addresses specific issues. These and other initiatives will be vigorously pursued in 1990. But they alone will not accomplish the sweeping reform of the global trading system that is so clearly needed.

Since 1948, the General Agreement on Tariffs and Trade (GATT)—the main arena for international trade talks—has sponsored seven successful rounds of tariff cuts by the world's great trading nations. As a result, the global economy has grown faster in the last four decades than in any 40 years of world history.

The problem today is that trade has outgrown the GATT. Areas inadequately covered by existing GATT rules, like agriculture, or not covered at all, like services, investment, and intellectual property, are of much greater importance especially to U.S. entrepreneurs.

To make matters worse, developing countries that are no longer at the margin of the trading system—accounting for half a trillion dollars in world trade—claim exemption from the rules we already have.

Thus, today, roughly one-third of world trade—or over $1 trillion in goods and services—is not adequately covered by internationally agreed rules of fair play.

The goals which we seek in the Round are essential to future prosperity. They are:

- First: far-reaching, fundamental reform of agriculture trade;
- Second: greater market access for industrial products;
- Third: comprehensive rules of fair play for the $500 billion of trade in services;
- Fourth: protection of intellectual property;
- Fifth: rules governing trade-related investment;
- Sixth: the end of trade distorting subsidies; and
- Seventh: application of the rules to developing countries.

The Uruguay Round is an ambitious undertaking that holds great promise. We believe we have entered this year well positioned to seize the opportunities that the Uruguay Round holds.

While we are negotiating in the Uruguay Round for more effective multilateral rules, U.S. interests must be safeguarded *and advanced.* That is why in 1990 we will continue to pursue market-opening initiatives with Europe, Canada, Mexico, and the nations of the Pacific Rim, especially Japan. Successful negotiations in the Round would help open Japan's agricultural market and distribution system, and push the Japanese government to procure foreign goods on a competitive basis. We are, of course, continuing a series of negotiations to open up specific Japanese industries and we have begun to attack structural barriers to trade through the Structural Impediments Initiative.

EASTERN EUROPE AND THE SOVIET UNION

Progress is being made in both the Eastern European and Soviet trade areas. Congress authorized a multi-year $1 billion aid package for Poland and Hungary. We are now negotiating with Eastern European countries on trade and investment agreements to increase market access and to encourage market-oriented reform.

With the Soviet Union, we have concluded the first round of discussions on a commercial agreement. Our goal is to complete discussions in early May.

FY 1991 REQUEST

Last year we explained in detail our organizational decisions for handling the extremely heavy workload for the Uruguay Round. Our approach is working well, with overall coordination under the direction of USTR's Coordinator for the Uruguay Round. The intensity of the work continues to increase as we head into the critical home stretch of the negotiations.

USTR's request for FY 1991 is quite modest given our ambitious agenda. It calls for an overall increase of $1,158,000 for a new level of $18,936,000.

These resources are needed to conclude the Uruguay Round, to continue to meet the requirements of the Omnibus Trade and Competitive Act of 1988, to continue the implementation of the U.S.-Canada Free Trade agreement, and to continue meeting the demands of our bilateral efforts to reduce trade impediments. In all of these undertakings, USTR relies heavily on the excellent support and cooperation of the numerous agencies involved in the trade policy and implementation process.

$1.5 million of the USTR budget will pay for the U.S. share of dispute settlement panel costs under the CFTA. This program is administered through a binational secretariat, the U.S. section of which is located within the Department of Commerce. That department, which disburses these funds and develops the budget estimates, expects a significant increase in the requests for Chapter 19 proceedings in FY 1991. This budget requests an increase of approximately $500,000, in the U.S. share of panel costs. We have reasonably good estimates, but we cannot control the actual case volume which may arise during the year.

$440,000 is requested for additional personnel costs, to cover the anticipated significant increase in SES salaries and regular government pay. Our base of $10,605,000 in personnel costs will rise by $678,000 in FY 1991. USTR will absorb $238,000 of the mandated pay increase through savings elsewhere. Although the Uruguay Round will end formally at the end of the first quarter of FY 1991, the

resource needs associated with the Round will increase. This budget requests an increase of $131.000 for FY 1991. The first quarter of FY 1991 will be an intense period for Uruguay Round negotiations. Significant activity (5-10 weeks of meetings) is expected in each of the 15 negotiating groups during this period, requiring the presence of a large number of USTR personnel in Geneva and other capitals to move toward a conclusion of negotiating group activities.

The concluding ministerial meeting is scheduled for December 3–7 in Brussels. Extra travel during the first quarter of FY 1991 and support for a large U.S. delegation at the Brussels Ministerial are anticipated to cost $675,000.

After the framework agreement is concluded in Brussels, implementation arrangements will have to be negotiated with all participants. USTR expects this phase, including heavy travel demands, to continue at least through June 1991.

As noted, travel needs will continue to constitute a major part of USTR resource requests. Total travel costs in FY 1991 are estimated at $1,461,000, a 4.9% ($67,000) increase over FY 1990. Rent costs for USTR space in Washington and Geneva will total $1,844,000 a 3.0% ($53,000) increase over FY 1990. Costs of equipment leases, phones, utilities and guard services will total $1,370,000, a 4.7% ($65,000) increase. Other services (primarily computer related contract services and dispute settlement panel costs) will total $3,005,000 an increase of 3.7% ($106,000).

I know that the Committee has been concerned about our capacity to handle the workload given to us in the Omnibus Trade and Competitiveness Act of 1988, to follow up on the CFTA, and to complete the Uruguay Round. We are confident, however, that working together with the many elements of the U.S. trade community, we can get the job done, and done well.

Mr. Chairman, on behalf of Ambassador Hills, I again thank you and the members of the subcommittee for the guidance, and advice you have provided our negotiators. We commit to continued close consultations, which have been so beneficial in the negotiating process. Without your active support and involvement, the Administration cannot succeed in the Uruguay Round, or any of our other initiatives. Working together, the Administration and Congress can ensure that the United States speaks clearly and forcefully as we explain to the world what open trade means and why it must be nurtured.

I will be pleased to respond to your questions.

Prepared Statement of Anne Brunsdale

Mr. Chairman and members of the Subcommittee, I am pleased to be here today. My task is to present to you the U.S. International Trade Commission's budget request for fiscal year (FY) 1991. Seated beside me is Phil Katz, the Commission's Director of Finance and Budget. Also in the room today are Vice Chairman Ronald Cass, and Commissioners Alfred Eckes, David Rohr, and Don Newquist.

THE BUDGET REQUEST

The budget request that I am presenting has the approval of the majority of the Commission. It totals $42,430,000 for FY 1991 and provides for 502 full-time permanent positions.

In developing its FY 1991 budget request, the Commission examined its needs and sought to improve its utilization of resources. The increases do not represent growth in either program or operating levels. Rather, they maintain Commission operations at current authorized levels, and provide sufficient resources to allow the Commission to accomplish its mission.

The $42,430,000 requested for FY 1991 represents an increase of $3,953,000 (a little more than 10 percent) over our FY 1990 appropriation less the Gramm-Rudman-Hollings sequestration. Almost 57 percent of this increase (or $2,248,000) is for nondiscretionary salary costs, including anticipated step increases, promotions and related benefits, as well as 50-percent funding for the effects of the proposed January 1991 pay raises recommended by the Office of Management and Budget. Due to this absorption of additional expenses, the Commission plans to maintain approximately 25 staff vacancies throughout fiscal year 1991. The balance of the increase ($1,705,000) is for necessary support services, including rent, utilities, and other services.

OVERALL WORKLOAD

The Commission's substantive responsibilities involve cases under the import relief statutes and reports under section 332 of the Tariff Act of 1930 (19 U.S.C.

§ 1332). Our total investigative workload, which declined from 239 new investigations in FY 1985 to a low of 92 in FY 1988, increased to 119 in FY 1989. As for the current year, at the time the Commission submitted its FY 1990 budget, staff projected 126 new investigations for FY 1990 and 125 for FY 1991. Subsequently, with the actual filings through the first four months of FY 1990 reaching only 20 new cases, staff revised its projections to 105 cases in FY 1990 and 119 in FY 1991.

In addition to our regular investigative workload, the Commission is heavily involved at this time in providing background support to Executive Branch efforts on the GATT-sponsored Uruguay Round of trade negotiations, negotiations for a trade agreement with the Soviet Union, and other trade initiatives.

IMPORT RELIEF INVESTIGATIONS

(1) The major portion of our caseload consists of investigations under the antidumping and countervailing duty statutes (section 303 and title VII of the Tariff Act of 1930, 19 U.S.C. § 1303, 1671 et seq.) Looking at recent trends, our title VII caseload declined from 185 new investigations in FY 1985 to 65 in FY 1988 and then increased to 78 in FY 1989. Staff now projects 60 new title VII investigations in FY 1990 and 75 in FY 1991. In the first four months of FY 1990 we instituted only 7 title VII cases compared to 34 in the same period for FY 1989.

While our title VII caseload remains low, the individual cases tend not only to be more complex but to involve industries having large volumes of imported products. Recent investigations of certain small business telephone systems and all-terrain vehicles affected nearly $700 million worth of imported products each, and the investigation of antifriction ball-bearings affected nearly $400 million of imports. The final antidumping investigations involving 3.5 inch microdisks and antifriction bearings consumed 4,183 and 5,024 hours of staff time, respectively. It is expected that the sophistication of the analysis required by our cases will continue to increase. Moreover, the Commission's new programs involving data verification and statistical support will increase somewhat the number of work-years devoted to each investigation.

(2) Among some of the Commission's more publicized investigations are the so-called escape-clause cases—that is, cases in which petitioners need not allege an unfair trade practice in order to obtain import relief. These cases are filed under section 201—or, for non-market countries, section 406—of the Trade Act of 1974 (19 U.S.C. §§ 2251 and 2436). They require the Commission to determine whether domestic industries are eligible for import relief and to recommend appropriate action to the President.

During FY 1989, the Commission did not institute any escape clause or review investigations. Staff projects two escape clause investigations in FY 1990 and two in FY 1991.

(3) The Commission expects that significant resources will continue to be devoted to investigations under section 337 of the Tariff Act of 1930 (19 U.S.C. 1337). These investigations are based on complaints alleging unfair methods of competition and unfair acts in the importation or sale of articles into the United States. Typically, they involve alleged infringement of an intellectual property right, such as a patent, trademark, or copyright. The Commission recently completed an important investigation in the area of biotechnology, and we are currently conducting significant investigations involving pharmaceuticals, aramid fibers, and computer chips (semiconductors).

Staff projects 18 new section 337 investigations in FY 1990 and 18 in FY 1991, compared to 16 in FY 1989. During the first four months of the fiscal year, 6 such investigations were instituted. It should be noted here also that the number of investigations instituted does not, of itself, accurately reflect workload. The complexity of the technology at issue in a 337 case, the number of alleged unfair acts, and the level of staff participation required in each investigation must be taken into account.

The Omnibus Trade and Competitiveness Act of 1988 amended section 337 in several respects that are significant for budgetary purposes. Most important, under the new law, if a section 337 complaint includes a request for temporary relief, the Commission must render a decision on such relief within 90 days (or 150 days in more complicated cases) and may require complainants to post bonds in order to obtain temporary relief. The 1988 Act also authorized the Commission (1) to order seizure and forfeiture of articles under certain conditions, (2) to issue limited exclusion and cease-and-desist orders against respondents that fail to appear, and (3) to impose greater penalties for violation of cease-and-desist orders. As a result of these amendments, section 337 investigations should be less costly for complainants in most instances, but will require more staff time per investigation.

STUDIES AND REPORTS

The Commission frequently receives requests from Congress or the President to conduct investigations on trade and tariff issues under section 332 of the Tariff Act of 1930 (19 U.S.C. § 1332). Staff expects requests to institute 23 new section 332 studies in FY 1990 and 22 in FY 1991, compared with 19 in FY 1989 and 12 in FY 1988. All of the studies we instituted in FY 1988 and FY 1989, as well as in the first four months of FY 1990, were the result of a congressional or a Presidential request.

So far in FY 1990, the Commission has instituted seven new section 332 studies, bringing total studies in progress up to 12. Of these, 4 were requested by the President and 8 by Congress. Four of the studies requested by the President are underway: Service Sector Profiles and Barriers to Trade in Services, Competitive Position of the U.S. Gear Industry in U.S. and Global Market; Estimated Tariff Equivalents of U.S. Quotas on Agricultural Imports and Analysis of Competitive Conditions in U.S. and Foreign Markets for Sugar, Meat, Peanuts, Cotton, and Dairy Products; and Conditions of Competition in U.S. Market Between U.S. and Mexican Fabricated Automotive Glass. Among the studies underway at the request of Congress are The Economic Effects of Significant U.S. Import Restraints—Phase II (Agriculture); The Effects of Greater Economic Integration Within the European Community on the United States—Phase II; Report on Trade and Investment Liberalization Measures by Mexico and Prospects for the Future; Report on Japan's Distribution System and Options for Improving U.S. Access; Durum Wheat: Conditions of Competition Between the U.S. and Canadian Industries; and International Agreements to Protect the Environment and Wildlife.

Congressionally requested studies completed during FY 1989 include: The Western U.S. Steel Market: Analysis of Market Conditions and Assessment of the Economic Effects of the Voluntary Restraint Agreements on Steel-Producing and Steel-Consuming Industries; Report on the Pros and Cons of Entering into Negotiations on Free-Trade Area Agreements with Taiwan, the Republic of Korea, and ASEAN, or the Pacific Rim Region in General; Ethyl Alcohol and Mixtures Thereof: Assessment Regarding the Indigenous Percentage Requirements for Imports in Sec. 423 of the Tax Reform Act of 1986; The Economic Effects of Significant U.S. Import Restraints (Phase I—Manufacturing) Competitive Conditions in the U.S. and World Markets for Fresh Cut Roses; The Economic Effects of Greater Economic Integration within the European Community on the United States (Phase I) The Effects of the Steel Voluntary Restraint Agreements on U.S. Steel Consuming Industries; and Importation of Certain Drug Paraphernalia into the United States. The studies on ethyl alcohol and roses were required by the Omnibus Trade and Competitiveness Act of 1988.

Studies completed in 1989 for the President include: Competitive Conditions in the U.S. Market for Asparagus, Broccoli, and Cauliflower; Men's and Boys' Woven Man-Made Fiber Shirts from the People's Republic of China; Service Sector Profiles and Barriers to Trade in Services; Agricultural Tropical Products—Literature Search Regarding Trade Distortions and Effect of Trade Liberalization, and Calculation of Tariff Equivalents; United States/Israel Free-Trade Agreement—Probable Effects on U.S. Industry and Consumers of Certain Remaining U.S. and Israel Tariff Reductions; Probable Economic Effect of Providing Duty-Free Treatment for Watches Under the Generalized System of Preferences; Foreign Investment Barriers or Other Restrictions that Prevent Foreign Capital from Claiming the Benefits of Foreign Government Programs; Changes in EC Government Procurement in Excluded Sectors and the Impact of U.S. Industries; Conditions of Competition Between U.S. and Mexican Lime in the United States Market; Certain Unmanufactured Cigarette Leaf Tobacco: Probable Economic Effect of Removal from Eligibility for Duty-Free Treatment Under the Generalized System of Preferences; Advice Concerning Probable Effects of Modification of Rules of Origin under the U.S.-Canada Free Trade Agreement for Certain Animal Fat and Vegetable Oil Products; Tropical Products: Probable Economic Effects on U.S. Industries and Consumers of Elimination of U.S. Tariffs; and Probable Economic Effect on U.S. Industries and Consumers of Modification of U.S. Tariffs Under the Uruguay Round.

In addition to the assistance provided to the USTR in the form of 332 studies, probable effects investigations, and trade monitoring work, the Commission provides a wide variety of assistance in the form of direct staff details, assistance on Presidential proclamations, assistance with multilateral and bilateral trade negotiations/agreements, modification of the GSP, and in the generation and maintenance of a variety of trade information. Further, Commission staff provides technical commentary and analysis to support the U.S. Delegations to the Uruguay round trade negotiations on antidumping, subsidies and countervailing measures, and safeguards.

The Commission is already seeing an increase in the work in support of USTR in FY 1990 as the pace of MTN activities increases. We have detailed two staff members to assist the USTR in the MTN negotiations in Geneva and another three to provide back-up in the USTR's Washington office. In addition, we are beginning work on our third major GSP investigation this year, whereas we normally are requested to do only one such study each year. We have also seen increased need to assist the USTR in a wide variety of activities related to the U.S./Canada FTA. In addition, the Omnibus Trade and Competitiveness Act of 1988 opens the possibility of a number of new types of 332 investigations, including the monitoring of "downstream" product dumping and additional monitoring related to escape-clause actions. The extent to which these provisions will generate additional work is unknown at this time.

The Commission will continue to play an important role in Harmonized System activities in the coming years. During FY 1987 and FY 1988, much of our effort in this area was focused on converting the U.S. customs tariff into the nomenclature structure of the Harmonized System. With the publication of the Harmonized Tariff Schedule in FY 1989, we expect the Commission's work in this area will focus on advice and assistance. In this regard, the 1988 Act authorizes the Commission (1) to recommend changes to the Harmonized Tariff Schedules resulting from sustained Customs protests, (2) to recommend to the President ways of modifying the Harmonized Tariff Schedules to implement international agreements that promote uniformity, to ensure modernization, to alleviate administrative burdens, and to make technical corrections, and (3) to assess the U.S. Harmonized System after its first year of operation.

The Commission continues to produce periodic reports on specific topics as required by Presidential proclamation or other legal requirement. In FY 1989 these included reports on non-rubber footwear, rum, autos, tungsten, the performance of the steel industry, and lamb meat. Copies of these reports are provided to Congress, the Executive Branch, and other agencies, as well as to requesters outside the Government.

In addition to these reports and studies, the Commission provides numerous background reports on proposed legislation to the Commission's oversight committees, as well as a great deal of informal assistance. This demand is expected to continue.

TRADE REMEDY ASSISTANCE

The 1988 Act expanded the scope of our trade remedy assistance program by requiring the Commission to establish a separate Trade Remedy Assistance Office and to render technical assistance, up through appeals to the administering agency (including informal legal advice), to eligible small businesses seeking remedies and benefits under certain trade laws. The number of requests for assistance rose from 230 in FY 1988 to 320 in FY 1989. Additional interest is expected in FY 1990 and FY 1991, particularly in view of the Act's requirement that the Small Business Administration facilitate access to the Trade Remedy Assistance Office. The resources used to staff this function were absorbed within the Commission's 502 authorized permanent positions.

OFFICE OF INSPECTOR GENERAL

Pursuant to the Inspector General Act Amendments of 1988, the Commission established an independent Office of Inspector General in FY 1989. This office broadens our internal audit program, which is designed to ensure that Commission administrative and program activities are in compliance with Federal regulations and practices. During FY 1990, the Inspector General will audit the statistical methods used to gather Commission data, the Commission's budget process, and the Commission's data verification program, in addition to other more routine program and financial matters. The resources used to staff this function were absorbed within the Commission's 502 authorized permanent positions.

LITIGATION WORKLOAD

The Commission has authority to appear in court on its own behalf, rather than refer cases to the Department of Justice. The size of our litigation caseload has decreased in the last two years from 84 active cases in January 1988 to the current level of 54.

CONCLUSION

It is likely that trade and trade legislation will remain in the forefront of public debate for several years. As a result, the Commission will continue to play an im-

portant role. The Uruguay Round of trade negotiations has created increased demands for comment and advice that are requiring a substantial commitment of Commission staff. Changing trade barriers, continued concerns over the treatment of intellectual property rights, and new political and economic conditions throughout the world will all demand sophisticated analysis in import relief investigations and fact-finding studies requiring greater expertise in both international trade and industrial organization.

It is important that Congress have confidence in the Commission's ability to provide sound analysis and data to trade policy makers and at the same time to fulfill its responsibility for investigating claims under the import relief laws. The Commission's budget request for fiscal year 1991 will provide sufficient resources to meet these demands.

I will be pleased to answer any questions you may have.

Thank you.